

MARQUETTE

BUSINESS REVIEW

A JOURNAL OF FUNDAMENTAL BUSINESS PRINCIPLES

FEBRUARY, 1959

TABLE OF CONTENTS

	Page
WHAT'S AHEAD FOR '59	1
IN INDUSTRY	2
IN LABOR	3
FACTS AND BIFOCAL FORECASTING	4
POLITICAL OUTLOOK FOR 1959	12
EUROPEAN ECONOMIC COMMUNITY	18
HOUSING FOR THE ELDERLY IN MILWAUKEE .	28
WATCH WISCONSIN	35
AVAILABLE PUBLICATIONS	38
INTRODUCING THE MANAGEMENT CENTER .	40

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A Journal of Fundamental Business Principles

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WHAT'S
AHEAD
FOR '59



... in industry

KENNETH R. MILLER, Senior Vice President

National Association of Manufacturers

When a person accepts an invitation to indulge in prophecy, he usually becomes a lonesome man — out on a limb all by himself.

In this article, however, I find myself in a somewhat different position, for no viewpoint I have ever expressed has had greater substance and a wider foundation in numbers. Actually, it is based on the authoritative opinions of more than 3,000 leading industrialists who are responsible for guiding companies of a wide range of sizes in all phases of manufacture.

While the general forecast is definitely on the optimistic side with bright prospects for a continuance, throughout this year, of the rise in sales and production that featured the recovery from the recession, there are troubling factors affecting the economy which must be dealt with adequately if the full promise of 1959, as well as that of the years that follow, is to be achieved.

But, before we take a closer look at the negative aspects, it might be better to examine the affirmative elements as revealed by 3,212 of the member firms of the National Association of Manufacturers who participated in our annual survey on business prospects.

Fully 95 per cent of the companies predicted that their 1959 sales will be as good as, if not better than the past year's, with 75 per cent confident that sales would go up. Only 5 per cent anticipated a downswing, while 20 per cent foresaw no significant changes in the level of sales.

The profit-outlook picture was not as cheerful. Although expected to improve, the percentage margin supporting this view was far less than in the sales analysis. Fifty-three per cent expect better profits in 1959, but this hopeful expectation is tempered by the belief of 18 per cent that profits would shrink and of 29 per cent that they would be no better than 1958, which was a poor year in this regard.

Company expansion should proceed at a far greater pace in the next 12 months than that marking last year. Although 44 per cent predicted growth at the same rate, 37 per cent were of the strong opinion that there would be an upturn, and only 19 per cent saw a drop in outlays for expansion.

Expenditures for research and development will definitely take an upward spiral this year. Thirty-four per cent said they would be allocating bigger appropriations to this activity; 62 per cent reported they would be at about the same level as 1958 and only 4 per cent will be lower.

(Continued on page 6)

... in labor

GEORGE MEANY, President

American Federation of Labor - Congress of Industrial Organizations

Economic activities continue to improve as the new year begins. Nevertheless, eight months of pick-up from the sharpest post-war recession still leave us with serious employment problems. Although the volume of total national output of goods and services seems to have returned to pre-recession levels, the number of non-farm wage and salary jobs is less than it was three years ago.

It is clear the employment has some distance to go before pre-slump levels are reached. Economic activities are still far away from anything that approaches full employment.

By the end of 1958, we seem to have recovered about 85 per cent of the recession's decline in industrial production. The volume of the nation's total output, including all goods and services, has apparently returned to the level of the spring and summer of 1957, before the recession began.

In the past two years, however, a good deal of new productive equipment has been installed, efficiency has improved considerably, and the labor force has grown by some 800,000 persons. There is more machinery, at present, and it is modern, highly efficient equipment. Businessmen took advantage of the recession to reduce costs and to improve efficiency. In addition, hundreds of thousands of young people have joined the ranks of the labor force in the past two years. Despite the upturn in economic activities, therefore, almost 25 per cent of the nation's industrial capacity is yet idle, about 6 per cent of the labor force is unemployed and there are 1.6 million fewer non-farm jobs than when the recession started.

The economy has a long way to go before the effects of the 1957-1958 recession are fully behind us. It will take a continuing and rapid rise in sales in 1959 to bring the economy to maximum use of idle manpower and productive capacity. The major questions that will be answered in the months immediately ahead are: Will sales and output rise fast enough, in 1959, to provide job opportunities for all persons who are willing and able to work? Will sales and production continue to pick up, with sufficient speed this year, to put productive capacity to maximum use?

The main cause of the recession was a lack of balance between the economy's growing capacity to produce more goods and services and its lagging ability to consume. This lack of balance developed in 1955 and 1956, when a capital goods boom, which was stimulated and partly subsidized by the government, was accompanied by declines in home-building and consumer buying of autos and other hard goods.

(Continued on page 9)

FACTS AND BIFOCAL FORECASTING

by

Bernard W. Dempsey, S.J.*

The editors of the Marquette *BUSINESS REVIEW* are to be congratulated for bringing into plain view for easy comparison at the same time and place the business outlooks of the American Federation of Labor-Congress of Industrial Organizations and of the National Association of Manufacturers. The judgments of both will strongly influence the very factors they are here appraising.

Direct comparison between the two is not necessarily valid. The manufacturers' report is not an analysis, but a statistical tabulation of the views of 3,212 firms whose decisions will powerfully affect the course of production, prices, income, and employment. This is a substantial fraction, more than any sample, and displays significant trends and uniformities despite the fact that the method makes it possible for a certain number of pluses to neutralize a certain number of minuses. The union outlook is not a tabulation of members' opinions, but a staff paper formulated for the guidance of some 14,000,000 persons variously affiliated. This is not nearly as high a percentage of the total as in the case of the manufacturers, but to the extent that union policies and established scales influence all rate making, it may be accepted as the most significant expression of the economic outlook of the hourly rated employee, and indeed highly significant.

For the comfort of the economic fraternity, we may note that the analytical skeleton is rather plainly visible beneath the garments with which each has clothed his figure of the economic future.

In each forecast there are specific propositions that are hard to reconcile. Seventy-eight per cent of the manufacturers foresee new products and other expansion, but only 37 per cent see an increased rate of growth. Either all the innovations are in very small companies, or some impressive engineering ingenuity is going to be manifested in local remodelling. Twenty-five per cent of our physical capacity is still unutilized. Twenty-five per cent of what? Physical capacity or economic capacity? Close to this city, there are many fine limestone quarries that, before the advent of reinforced concrete, were thoroughly economic operations but are now abandoned. Is this unused capacity? Two breweries in Milwaukee recently consolidated. The same output can be produced at lower cost by the more efficient utilization of the newer of the two plants. The old plant represents the same physical capacity that it did a month ago when it was operative. Does it represent economic capacity? Does capacity have any meaning except in a specific set of cost-price relations? "Business uncertainty" is a curious thing for a responsible manager to complain of as a restricting influence. If there were no

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business uncertainty, he would be out of a job; one suspects that needless economic uncertainty of political origin is meant, but that's something else.

Manufacturers buy materials already embodying some labor cost, process it further, and then go out to sell it. In the decision-making involved in this, manufacturers may be regarded as the thermostat adjusting wages as cost and wages as income, being in a position to ignore neither. Unions, on the other hand, participate in the same productive process as producers and consumers; cost to the manufacturer is income to them, revenue to the manufacturer is cost of living to them. Since both groups are confronted with identical facts just viewed from opposite but wholly compensating angles, we might anticipate a substantial unanimity when they appraise the current concrete economic situation.

With one very important exception, cost and income are exactly the same thing with price mediating to maintain the equality. But the manufacturers clearly think costs are too high and the unions clearly think incomes too low. And each regards each fact as the great restrictive force which prevents our economy from moving forward to levels of real income, full employment, and unimpregnable defense heretofore undreamed of.

Inevitably, therefore, both turn from the obvious fact to the one very important exception, without admitting it as such. The one very important case in which income is received which has not been a *previous* cost to anybody is the case of the first payment out of funds created by the banking system, nowadays primarily at the beck of government. This is the sole cause of a general rise of average prices.

Yet both groups protest against tight money — with the discount rate at 2½ per cent, which can be regarded as a disciplinary rate only if one thinks that money ought to be free, as apparently both do. Manufacturers complain grievously of high taxes, which are the only defense against inflation until federal and state budgets are really cut. To the manufacturers, inflation is the result of "union victories" and businessmen must "hedge" against the "retaliatory weapons" of the unions. To the unions, recovery from recession was brought about by incomes and purchasing power sustained by "government funds," as though the government had any funds not taken out of incomes or created by inflation.

The forecasts indicate clearly the illusion we maintain in our economic thinking. Here are two groups of people whose actual welfare is wholly bound up in their efficient daily cooperation in the reduction of money costs to increase real income. Each blames the other for the price rises which result from each one's blaming the other for the inflation that results when both run to the government for more inflation to float their common craft off the economic shoals of incompatible cost-price relations on which their own mistaken policies periodically strand them.

Turning to other factors having a decided bearing on the prospects for 1959 and more specifically, to the economic forces regarded as conducive to business expansion, the introduction of new products received the highest score, followed closely by the expansion of markets and the population growth. These 3 elements received 78 per cent of the votes for all the factors named, with 27 per cent going to the first, 26 per cent to the second, and 25 per cent to the third.

However, the explicit vote on the question of which was the factor of first importance brought about a different alignment, with population getting 35 per cent of the vote, new products 26 per cent, and expanding markets 22 per cent.

On the other side of the coin, the industrialists rated the economic forces that are restricting the economy — on a times-mentioned basis — this way: Increased costs, 30 per cent; taxation, 27 per cent; business uncertainty, 22 per cent; tight credit, 14 per cent; and all others, 7 per cent.

But what is unquestionably a more definitive "fixing of the blame" is shown by the vote designating which of the "plagues" ranked first in seriousness. Taxation led in this with 32 per cent, increased costs were named by 29 per cent, and business uncertainty retained its 22 per cent rating.

It remained, however, for the most incisive appraisal of the danger spots in the 1959 picture to be disclosed in response to the broad and all-inclusive question: "What, in your opinion, are the three greatest problems facing American business in 1959?"

Not surprisingly, in view of the economic history of the past two decades, labor problems, taxation and inflation were cited in the order named. Of the three, labor problems won the proverbially dubious honor of being considered the most critical, with slightly more than 32 per cent of the respondents so rating it. Taxation got a little better than 20 per cent of the "first place" votes and inflation, 14 per cent. The rest were scattered among such categories as costs, government interference, business trends, political activity, and international complications.

A further analysis of the response to the troubling factors query — on the basis of the number of times the particular problem was mentioned by the industrialists — gives an equally decisive ranking to the three leaders. Labor problems got 1,918 mentions, taxation 1,716, and inflation 973.

In the light of the McClellan Committee disclosures of the vast power wielded by the leaders of organized labor, the prominence given this problem by industrialists will hardly raise any eyebrows.

It has been shown that this power has been used, or misused, dictatorially and arrogantly, to deprive individuals of their rights, to commit acts of violence and sabotage, to suppress all opposition within unions, to embezzle and misuse union funds, and to spend the dues of members to advance the political objectives of union leaders.

Faced with the necessity of dealing, at the bargaining table, with union officials who have at their disposal such a seemingly inexhaustible arsenal of retaliatory "weapons," it is little wonder that most businessmen must "hedge" in their predictions for any period ahead. Since unions are immune to prosecution under the monopoly laws that strictly govern the behavior of business concerns, labor leaders can force labor costs to unreasonable heights by reckless demands for wages and benefits without regard to, and far in excess of, concomitant gains in productivity. Moreover it is the setting of wage and benefit rates on an industry-wide basis that often proves ruinous to employers who have no voice in the contract negotiations where the terms are hammered out by the incontestable might of union leadership.

Ironically, the wage-price inflation which results from so-called union "victories" has brought no real advantage to those members who get the increases, while the effect on many millions of other Americans, especially those living on fixed incomes, can only be described as miserable.

The concern over taxation has roots as deep as, if not deeper, than that brought on by labor problems. High and discriminatory income tax rates have long had a deleterious effect on the economy. They have served, over the years, (1) to smother individual and business initiative by penalizing success; (2) to curtail drastically the flow of investment funds vital to business stability and growth by preventing the accumulation of adequate savings, the chief source of these funds; and (3) to create strong inflationary pressures by forcing those unable to acquire equity capital into over-use of bank credit.

The crucial status of the tax situation was officially aired by the House Ways and Means Committee hearings early last year. Scores of witnesses — individual business and professional men and representatives of organizations composed of small, medium, and large commercial enterprises throughout the nation — cited case history after case history to document their contentions that the personal and corporate income tax rate structure must undergo thorough reform if the economy is to be rescued from the tentacles of an unrealistic taxation policy.

Thus it is that of the three most feared problems facing businessmen, two, labor problems and taxation, are gnawing at the nation's vitality, while the third, inflation, is feeding off both the other members of the pestilent triumvirate.

Now, if the true well-being of America and its people is not a compelling enough reason for us to solve these problems forthrightly and effectively, it behooves us to take a long and searching look at an old foe in a new role, Soviet Russia.

Communist leader Khrushchev has declared open "warfare" on America's world economic leadership. It is not an empty threat. Russia already has taken tremendous strides in that direction. It has been estimated that if the Soviets continue their recent rate of economic growth, and we do no better than we have done in the past 6 or 7 years, they would be able to eclipse our production rate within twenty years.

All businessmen will willingly assume the brunt of the responsibility for victory in this new production contest with the Russians. It is a job for which they are admirably fitted, but they cannot be expected to defeat a foreign enemy while weighted down with the domestic handicaps of labor monopolies and near-confiscatory taxation.

The real promise of 1959, then, depends to a great extent on our success in erasing from the American scene its three principal economic blights.

Contributing to this underlying cause of the recession was the government's tight-money policy, which discouraged economic growth. Also, there was the government's attempt, during the first ten months of 1957, to cut defense expenditures by sharply reducing the placement of defense contracts.

The economic decline, that started in the summer of 1957, was cushioned by effective collective bargaining and unemployment insurance. It is estimated that wage and salary increases for employed workers offset about one-half of the decline in total wages and salary income that otherwise would have occurred between the summer of 1957 and the depths of the recession last winter. Despite the inadequacies of the unemployment insurance system, unemployment insurance payments offset approximately another 25 per cent of the decline in wage and salary income that would have occurred in the absence of these cushions. Largely as a result of these factors, total personal income fell only 1.6 per cent — by a yearly rate of \$5.7 billion — between the pre-slump peak and the recession low-point. It was this remarkable degree of stable total personal income, in the face of severe production cutbacks and layoffs, that prevented the recession from becoming a downward spiral.

While the decline in economic activities was being cushioned, other forces worked to bring about an upturn. The government belatedly reversed its tight-money policy in November, 1957, and eased the money supply; these steps made it easier to borrow money and encouraged business, particularly construction. There were continuing increases in expenditures by state and local governments, particularly for the building of schools and roads. Congress stimulated residential construction, by adopting a measure that made additional government funds available for government mortgages for low- and medium-priced homes. Additional government funds were also made available, by congressional action, to step up the road-building program. In addition, the government reversed its policy of cutting back defense contract placements and sharply increased its orders for defense goods.

By last May, economic activities turned up. During the previous eight months, however, the decline had been sharp and severe. In the first quarter of 1958, the volume of total national output had declined to the level of the first-half of 1955; industrial production alone had fallen to the level of fall of 1954, and the number of non-farm jobs had dropped back to where it had been in mid-1955.

Some three years of economic advance had been wiped out during the decline from the summer of 1957 to April, 1958. The upturn, since then, has recovered most or all of the lost ground in production, but employment has improved merely at a very slow pace.

In the months ahead, there will be much less economic push from government than in the past year. It is true that expenditures of state and local governments are expected to continue to increase and this will add to production, sales and jobs, largely in construction. The placement of defense contracts, however, is expected to decline

somewhat, after the sharp rise in the first half of last year. The Administration's efforts to produce a balanced budget may result in holding federal expenditures at about their present level. In addition, the government has provided a damper to economic activities by its tight-money policy.

There is nothing in the picture at present to indicate an expectation of a rising foreign trade balance — an excess of exports over imports. This balance fell in 1957 and 1958 from an export peak, reached during the Suez crisis, and it has apparently levelled off in recent months.

The economic outlook for the coming months, therefore, largely depends on business and consumer activities. Will business step up its investment in new plants, machinery, office building, and shopping centers? Will consumers step up their purchases of goods, services, and homes?

As for business investment, it is important to recall that the lack of balance between the economy's capacity to produce and its ability to consume brought about a sharp drop in business spending for new plant and equipment from the third quarter of 1957 to the third quarter of 1958. During that period of time, business investment dropped from a yearly rate of \$37.8 billion to a rate of \$29.6 billion. In the final months of last year, business outlays for new plant and equipment apparently levelled off or rose slightly.

With almost 25 per cent of productive capacity still idle, however, a substantial rise in business investment cannot be expected immediately. It is unlikely that companies will expand their capacities to produce, while output remains far below their current productive abilities. A substantial increase in business outlays for new plants and machines in the months ahead depends on a continuing, rapid rise in sales and production that will enable industry to operate at maximum levels.

The picture concerning business inventories is rather similar to the one for business investment. Business built up its inventories in 1955, 1956, and most of 1957, on the basis of actual and expected increases in sales. With the decline in sales that began in the Summer of 1957, business started to cut back its inventories drastically. Inventory cutbacks proceeded all through last year. Whether or not businessmen generally will rebuild inventories in the months ahead depends on sales. Only a continuing rise in actual and expected sales can convince businessmen to rebuild their stocks of goods on hand.

The major key to economic activities in the months immediately ahead, therefore, is the consuming public. A substantial rise in consumer spending for goods, services, and homes is needed to boost the economy's sales and output.

Only a continuing and rapid rise in total production and sales — largely dependent on consumer activities — can convince businessmen to increase investments in new plants and machines and to rebuild moderate stocks of goods on hand. Without such a continuing rise in consumer buying of goods, services, and homes, unemployment will probably remain high and a good deal of productive capacity is likely to remain idle.

Unfortunately, the real volume of consumer purchases of goods and services last fall was less than in the fall of 1957. An increase in consumer spending in the final months of 1958 probably brought the volume of consumer purchases back to the pre-recession level or slightly greater. New housing starts, which rose considerably during most of 1958, seem to have levelled off towards the end of the year, under the effect of the tight-money policy.

While the consuming public is the key to economic activity in the coming months, it is clear that a continuing and fairly rapid rise of consumer activities, above present levels, is needed, if maximum employment and production is to be achieved during 1959.

Such an increase in consumer activities requires a continuing improvement of consumer buying power. Unfortunately, the buying power of per capita after-tax personal income (after accounting for price increases and population growth), in the third quarter of 1958, was hardly any greater than it had been in 1955. It is unrealistic to expect any significant and continuing push in consumer activities, unless per capita buying power advances considerably beyond the levels of two and three years ago.

Substantial improvements in wages, salaries, and fringe benefits are required in the coming months to raise consumer incomes. Such advances in earnings can be granted, without the need for price increases, out of the benefits of rapidly rising productivity and profits. In recent months, productivity has been increasing at a very sharp pace and profits are now moving toward record peaks.

The government's tight-money policy should be halted. This policy, apparently, has already restricted the rise in home construction and it may have dampened other economic activities, as well. The government's monetary policy should aim at encouraging economic growth, rather than the current effort to restrict expansion while almost 6 per cent of the labor force is unemployed.

A permanent improvement is needed in the unemployment insurance system to provide more adequate benefits for a longer duration, for those who are unemployed. Federal government assistance is needed to help businesses and workers in the nation's economically distressed communities.

Above all, a better balance is required between the economy's ability to produce and its ability to consume. The United States is blessed with a vast capacity to produce a rising volume of goods and services. The job on the home front in the coming months is to put idle manpower and productive capacity to work, by building growing markets for the sale of the goods and services that can be produced.

We cannot afford the waste of idle manpower and productive equipment, in the face of the urgent need to strengthen our national security. The Communist threat to the free world and our way of life is much too great to permit such wastefulness or complacency about the kind of slow economic growth of recent years. An expanding, full employment economy is needed to provide the basis for meeting the nation's defense requirements, as well as for improved living conditions of a growing population.

POLITICAL OUTLOOK FOR 1959

by

Eric Waldman*

A discussion which entails a political forecast is indeed a challenging undertaking. It requires not only a careful and objective analysis of the past developments and of the present situation, but it also involves an examination of a great variety of factors about which the average person knows very little. Nevertheless, these factors will be of great influence upon the events of 1959. For example, who is in a position to assess with any measure of certainty the actual economic strength of the soviet block and the degree of acquiescence or restiveness of the peoples living under soviet rule? Recognizing the complexity of the human motivations of those exercising political power, as well as of those who are "ruled" from above with a varying degree of participation from below, we must conclude that the impact of such tangible successes as the first soviet planet upon such intangibles as the morale factor of the soviet peoples are of telling influence. Thus, realizing that non-material elements must also be assessed, we will appreciate the *a priori* limitations of any predictions of coming events.

As in the past years, the "East-West Problem" will again cast its threatening shadow over all other international issues. The division of the world into a "Free World," a soviet orbit, and a combination of "neutral nations" has brought about an evaluation of all major international and domestic events in terms of what they do to the over-all distribution of power. This attitude represents a very unfortunate development because "priorities" are determined not on the basis of some absolute standards such as basic human values, but by consideration of what will increase one's own power or decrease the strength of the opposing power constellation. Thus, assistance to underdeveloped countries or economic and technical aid attains significance predominantly in relation to what it does to the over-all power situation.

While it is generally accepted that the leadership of the Free World is in the hands of the United States and the control in the soviet orbit is exercised by the Kremlin rulers, there is reason to believe that the coming year will complicate the picture by some diffusion of the leadership in both camps. As a result of what some observers consider an unimaginative foreign policy of the United States, characteristic for the past few years, this function of the U. S. Executive has come under severe criticism by our Allies. It is assumed that the Congress of the United States will take an increased interest in foreign policy formulation. The committee system with which Congress must work is, however, not geared to this type of work for a variety of reasons. Thus our Allies will take a growing share of policy determination. Provided that compromise solutions can be worked out

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without too much delay, this in itself is a healthy development. The recent North Atlantic Council decision, rejecting the Khrushchev "ultimatum" for Berlin, is a splendid example of this type of cooperation. If this development of common policies can also be worked out to gain the initiative on the international scene, then the position of the Allies will become greatly improved.

Moscow apparently also finds itself no longer in the role of the unchallenged prime mover of a common foreign policy for the entire soviet orbit. In spite of certain severe internal difficulties of Red China, the Chinese Communist leaders are exerting a strong influence on soviet decisions. We might remember Khrushchev's change of heart last year about a summit meeting after his conference with Mao Tse-tung. Soviet expansionist designs in Asia require Peiping's support. This support is forthcoming — but for a price. There might even be a concession offered to the Red Chinese which would permit them to establish an Asian-African Communist international organization.¹

At the end of 1958 we find the Soviet Union on the offensive. This situation will continue in all probability, as indicated by the Berlin crisis. The soviet ultimatum of November 27, 1958, to the Western Allies requesting the removal of their 9,000 men token military forces (U. S. troops amount to 4,000 men) within the next six months, is a case in point. It is not yet clear how far the Soviet Union is prepared to go in getting our troops out of Berlin and in incorporating this city in one way or another into the Soviet Zone. Obviously, the Kremlin is little interested in a small piece of real estate and in obtaining control over about 2½ million anti-Communist Berliners. The diplomatic attack on Berlin, so far as it is still a part of the cold war, was made at least for two major reasons. One is connected with the long-range plans the soviets have in store for Germany. They are aiming at either a neutralized country or one incorporated into the soviet orbit. The other reason is to remove Germany from NATO, a move which could amount to a death blow to this vital European defense alliance.²

In spite of the bellicose threats of the soviet leaders, including a warning that a use of force by the Allies to keep their troops in Berlin would bring about an atomic war, it is highly questionable if the

1. The soviet ideologist Stepanyan wrote in *BOPROSSY FILOSOFII*, a soviet periodical, that two regions within the camp of the "socialist" countries can be distinguished. One is comprised of the European members of the soviet block and the other "the Asian socialist countries which share a great deal in the economic and cultural development. . . ." (Reported in *DIE ZEIT*, XIII, 48, Hamburg, November 28, 1958, p. 3.)
2. There are additional reasons that the soviet leaders wish to get control over Berlin. This city is operating as a show place of the West which is accessible to many persons from the East. It further has functioned as the escape hatch for the majority of the three million East Germans who have left the Soviet Zone until now. Since a great percentage of the escapees are either young people or highly skilled personnel, the "zone flight" (*Zonenflucht*) has created a serious economic problem for the so-called "German Democratic Republic."

Soviet Union at this time is willing to risk World War III. The Western powers have taken the only possible position when they rejected the soviet plan for the so-called "internationalization" of the three Western sectors of Berlin. A "fall" of Berlin might encourage a "neutral position" of the Federal Republic of Germany and thereby eliminate Germany from the NATO alliance. General Heusinger, the head of the German military establishment, identified one of the three directions of soviet aggressiveness as Western Europe via the Federal Republic.³

The Western Allies will continue in their insistence that the Berlin situation is only part of the German Question, but they will further reaffirm their willingness to discuss the German problem in connection with the over-all European security. The outcome of all the exchanges of notes, angry charges, and counter-charges might be a summit meeting of some kind which will achieve little or nothing concerning German reunification, but which will be most successful in one respect, the temporary safeguarding of the precarious status quo. The Soviets will again shift their main effort back to China or to the Middle East. It is in Asia and in Africa that the fight for supremacy of power will be fought in order to get the support of the uncommitted nations.

Thus there is little hope that within 1959 the initiative on the international scene will shift from the soviets to the leaders of the Free World. At best we shall find at the end of the year the present division of the world still in existence.

This, however, does not mean that the Western World will only react to soviet policies. Within the Free World there are a number of developments in process which ultimately will strengthen it. For example, the progress of European integration is of great significance. The entire defensive and eventually offensive potential of the Western powers, also in a non-military sense, will become stronger. The European Economic Community encompasses 6 continental nations with 170 million people. The obstacles in bringing about a higher degree of European unification are many and substantial, but there is sufficient justification in believing that 1959 will bring further steps in the direction of close collaboration, provided that Berlin will not prove to be the place the Soviet Union has selected as the scene for a showdown.

The competitive struggle between the Soviet Union and the United States will also continue within the area of foreign aid. The soviets will persist in their method of concentrating their assistance, consisting of low cost loans and technical aid, in a few selected and strategic countries. Washington will be forced to re-evaluate the American foreign aid program under the pressure of a budget-minded Congress. The upshot of this might be all to the good, and "give-aways," especially in the military aid column, might be replaced by assistance along

3. The other two directions of aggression according to General Heusinger are: via China into the Indonesian area, and over the Middle East into Africa. (As reported in *DIE WELT*, Hamburg, November 29, 1958.)

the lines of the Point Four program. But even better, a stronger participation of other nations within the framework of the United Nations might tend to decrease actual American cost, to provide more expeditiously technical personnel from other industrialized nations, and to strengthen the common bond of the free people working together for a humanitarian and truly progressive purpose. Along these lines there are rudimentary beginnings to be observed. A United Nations Economic Commission for Africa has been established with headquarters in Addis Ababa, Ethiopia, having as its purpose the assistance of African nations with their problems of economic development.

Also in the Asian area we shall witness that an increasing amount of initiative will be displayed by the Asian countries themselves. It has been reported already that 1959 will bring a shift in the foreign policy of the Philippines. There will be a closer economic and cultural cooperation with the other free Asian nations and a move away from the ties with the United States.

The leadership of the Western powers, therefore, will have to follow the form of collaboration among sovereign nations. This will constitute a great contribution for preventing the further communist penetration of the anti-colonial and new nations of the Afro-Asian block. It might be useful to remember that the United Nations now has 29 countries from the Afro-Asian block among its 82 members. Thus, France will find it increasingly difficult to maintain the remnants of her formerly large colonial empire. The United States will have to give up its "neutral" attitude toward the suppression of political self-determination of the North African people by the French. The Soviet Union will attempt to continue her infiltration tactics in Africa. The Moscow radio announced on December 29, 1958, that a special commission was set up that day, attached to the Soviet Committee of Solidarity of African-Asian Countries, with the explicit purpose of supporting in every way possible the struggle of the African people for national liberation.

The domestic situation of the United States will be strongly influenced by congressional leadership. The situation will constitute a strong deviation from the normal pattern of American government made inevitable, however, by the lack of guidance and policy formulation of the executive branch. Again the American people are faced with a record peace time budget of 77 billion dollars, with 41 million slated for the military. It might well be that Congress will raise the amount planned for defense, because it might appear to the congressional leaders as a piece of questionable economy to place at this time the military under an austerity program. As Hanson W. Baldwin pointed out, the budget "implies a slightly increased— but calculated — military risk in order to reduce the Nation's economic risk."⁴

With an eye toward the 1960 presidential elections, both parties will attempt to overcome their internal divisions. Vice President Nixon will assume in all practical terms the leadership of the GOP,

4. *New York Times*, December 30, 1958.

representing the more conservative element within the party, while Governor Nelson Rockefeller will be looked upon by the liberal faction as their standard bearer. With a continuation of the conservatives in control of the Republicans in the Senate and House of Representatives, Nixon will be in a better position to advance himself and become eventually the "indisputable" candidate for the Republican nominee for the Presidency. Within the Democratic Party the liberal element has come out considerably strengthened from the last elections. There will be a stronger emphasis than in the past on civil rights, and social and labor legislation. The developments of the international situation will, however, determine how much attention Congress will be able to spend on these issues.

Within the educational field the re-evaluation of contents and methods will continue, and Congress might provide more funds for federal aid to education in the form of scholarships, tax-credits, and long-range but impractical loans.

England, one of our closest Allies, will probably hold national elections prior to the middle of the year. British Prime Minister Macmillan actually has time until May of 1960 to call for an election; however, despite last year's popularity of the Labor Party, the improvement in the domestic economic situation and the disunity within the opposition make a victory of the Conservatives more likely now than later. The French development is still at its beginning with President de Gaulle attempting through an austerity program to improve French economy. West European cooperation will be of great help to France in this effort. The Federal Republic of Germany will continue to enjoy political and economic stability, and as a matter of fact will look for investment opportunities abroad. A good area for German investment capital will be in the Middle East, where German reputation runs high and the Western powers are strongly compromised.

In January, the Soviet Communist Party will hold their 21st Party Congress. It has been called, by Khrushchev, one year earlier than required by party statutes. It is expected that his latest power consolidations, such as the ousting and degrading of Bulganin, will be confirmed. Of greater significance, however, will be his presentation of the new seven-year plan which is designed to outproduce all the Western powers. In terms of political control, certain relaxations, as compared to the Stalin era, will continue but basically the soviet citizens will remain objects of totalitarian rule. However, after a period of over 40 years, people have learned to live under difficult conditions and, if they are neither convinced Communists nor fellow travelers, they have escaped into what has been called the "inner immigration," a kind of personal detachment from the political world surrounding them. Thus there is little hope to expect a popular uprising of the masses within the Soviet Union unless at the very apex of political power, in the Party Presidium, a vacuum is created by another problem of succession to the top leader.

And finally there will be a series of interesting developments within Communist China. Mao Tse-tung has relinquished his position as

Chairman of the Republic but remains the leader of the Chinese Communist Party. This step might be explained by the traditional communist practice that policy decisions of the leadership are beyond criticism. Only the administration, i.e., the execution by lower governmental or party officials, is permitted to be the target of so-called self-criticism. In spite of the very ambitious agricultural and industrial program of Red China, the commune system has shown great deficiencies and breakdowns in spite of the enormous social cost. There will be "house cleanings," trials of saboteurs, and a great deal of re-organization. All these activities are part of the executive functions. Mao will remain aloof as the untouchable party theoretician.

Summing up, 1959 will be a year of great challenges to the Free World. There will be further complications in Berlin, the Middle East, the Far East, and probably also in Africa. There is no room for complacency nor for underestimating soviet achievements, strength, and tactics. However, the deep conviction that free men in a free society eventually must triumph because they are in a much better position to make the most of their capabilities, must and will give us courage, strength, and perseverance in the forthcoming year.

EUROPEAN ECONOMIC COMMUNITY: DAWN OF A NEW ERA?

by

Cono Casella*

On January 1, 1959, the European Economic Community began to function. Thus has become active the agreement signed by France, Germany, Italy, Belgium, Netherlands, and Luxembourg on March 25, 1957, in Rome, and duly ratified by the signatories. Although the EEC is but one of the several attempts to cope with the difficulties created by events since the end of World War II, its potential is greater than that of any other prior effort; it can end up as a false start, or it can be the herald of new developments that may play an important part in the future not only of Europe but of the entire world. Which of these it will be no one can say, but it does deserve the attention now being given to it.

The ideal of a united Europe has inspired men ever since the fall of Rome. Charlemagne was one of the first to try to patch up the partition of the continent, and others ever since have followed in his path. Little came of these efforts because they were based on military conquest or political compulsion. Similar efforts with the same results have checkered attempts undertaken since 1947 to unite the free nations of Europe.¹ For this reason a more limited goal is being attempted by the six nations. If economic integration is successfully achieved, then the proponents of the plan hope that political union may finally result. Moreover, if the common market works for the present members, it may serve to attract new members and eventually include other nations. It is much too soon to speak of the United States of Europe, but if one is ever brought into being the economic union started on January 1 may very well be the beginning of events that could lead to that momentous goal.

The treaty creating the common market is a long and complicated document.² Its essentials can be reduced to several main headings, however. The agreement sets up a schedule during which the economies of the member nations are to be gradually merged until one all-inclusive economy is formed. The time period has been divided into three four-year intervals, with some flexibility provided in the event that necessary adjustments require more time. At most, the total

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1. Arnold J. Zurcher, *The Struggle to Unite Europe, 1940-1958* (New York, New York University, 1958), provides a brief survey of this effort from the outbreak of World War II onward.
2. *The New York Times*, March 26, 1957, p. 12, provides a summary of the agreement. An English version of the text has been published by the European Community for Coal and Steel, Information Office, Washington 5, D. C.

time required can be extended to fifteen years. During these years the trade tariffs and quotas that bar free commerce among the member nations are to be dismantled. At the end of this period all trade will be free of any artificial impediments. Escape clauses exist to soften the shock of this reduction of protective devices, but they can only be invoked with the approval of the various governing bodies charged with overseeing the operation of the agreement.

These tariff reductions apply to all products. Agricultural and industrial items alike come under the terms of the treaty. In the event of hardship caused by the fall of prices of certain products within a country below a certain point, the provisions of the treaty can be set aside to give the industry affected time to make necessary adjustments. But such exemptions are limited as to time and as to price at which the escape clause is set in motion. In addition, the members can have recourse to these cushions only during the first two periods. After the eighth year, or tenth year at the latest, the individual governments will be required to follow the majority decisions of the community if it is decided the minimum price is too high. Moreover, efforts will be introduced to coordinate such policies among the various governments that influence their respective markets.

The equalization of conditions of trade and commerce within the economies of the six nations is designed to form a single market. National policies with regard to industry, trade, and agriculture will be unified until the member nations will have what amounts to an economic union. Thus, after the transition period is completed, more and more decisions will be subject to modifications called for by the Council of Ministers with regard to laws and administrative regulations to remove conditions that it considers restrictive to competitive situations. Eventually goods and services, capital and labor will be free to move across national boundaries without interference or restriction, with limited exceptions to reduce speculative capital movements.

Overseas territories and colonies associated with the members are also related to the market, and constitute a virtual free trade area attached to the EEC. Tariffs and other protective barriers may be continued by such areas to protect their new industries against competition, but not in any way that might discriminate in favor of the country to which they are tied politically. In this way the particular territory or colony can protect its budding industries without, however, providing any special considerations for the mother country. These dependent states are to be provided considerable assistance by the members of the market. A development fund is to aid these territories and colonies by making available some \$580 million over a five-year period to increase trade and investment. Because of the ever-changing conditions in this touchy field, the agreement has only concerned itself with a limited time span of five years in outlining the more important trade and industrial relations with the community. However, if this working agreement proves profitable, it may open a new period of cooperation among the nations of Europe and the old colonies, a type of cooperation more suitable to modern day needs.

The purpose of the community is not to create barriers to trade between member nations and those outside the group. Tariffs for economies outside the community are fixed and cannot be greater than the arithmetic average of the charges made by the six countries before the treaty went into effect. Allowance is made for certain items, which are subject to specific negotiations, but these are the exceptions and are few in number so as not to alter tariff levels significantly. Moreover these exceptions, which permit higher duties, are offset by products subject to tariffs that are even lower than those permitted. In addition, a ceiling has been placed on tariffs for raw materials and semi-manufactured items obtained from outside areas, 3 per cent and 10 per cent respectively.

By now it must be evident that the objective of the EEC is to unite the economies of the member nations into one large economy. The advantages which are said to flow from economic integration are considerable, and are not by any means restricted solely to economic performance. Perhaps one of the main reasons for the considerable fervor with which the proponents of the common market have pressed their cause is the realization that national economic rivalry was an important cause for the frictions that led to the outbreak of the two world wars. Because wars have become increasingly destructive, the advantage of reducing the conditions that might lead to a renewal of fighting can hardly be overstressed. Furthermore, the cost of modern military weapons, and the demands they make upon the productive system, have increased to the extent that few nations can now afford the expense of properly equipping themselves for self-defense. A European common market would, therefore, solve two problems at once: it would tend to eliminate some of the rivalry that marred the relationships of the member states, and would also permit a sharing of the expense of military preparedness by reducing the need for forces along their respective borders. This latter goal has not been achieved as yet, but success in the economic field could lead to mergers in political and military activities.

Another important issue is the fact that European states depend for most of their raw materials upon outside sources. The Suez crisis of 1956 indicated how susceptible these nations are to external threats and pressures. Because many one-time colonies and territories are now on their own, with their number liable to future growth, the economic advantages of having exclusive sources of materials and secure markets for their products has also been declining for Europe. If these nations are to keep open their lines of communications and retain some influence abroad, it will be necessary for them to improve their position with regard to the major powers. At the present time the United States is taking a part in protecting these sources of materials. However, if the United States should decide to pull back from some or most of its commitments held abroad, the situation for Europe could change overnight. So long as this country remains steadfast in its support the European position will be fairly secure, but the time may come when the communists will have perfected long range ballistic missiles to such extent that an American president may

not be willing to risk certain destruction of large parts of this nation by standing up for its allies. If and when that time comes, Europe must be prepared to take care of itself. Economic union, not only of the six but of all free nations on the continent, would make it possible for them to protect their interests.

Advantages of a more directly economic nature are also seen in this move. It is generally argued that the fragmentation of Europe into many small economies, each attempting to provide itself with all the complementary product services to supply its needs, deprives these nations of the advantages that can be obtained from large scale production. Thus the greatest advances in automation, improved marketing methods, successful harnessing of the atom, and the proliferation of goods and services to meet the requirements of a modern state have been made in the United States. Russia is now starting to make big strides in this direction. If Europe is not to fall back even farther in this race, something must be done to increase the efficiency and productivity of its industry. Protective barriers raised to favor local industries and agriculture have not been able to do the job. It is felt, on the other hand, that lowered trade restraints will permit the free movement of the factors of production to the places where they will be utilized most efficiently.³ In time the market would then consist of at least six nations with a population of more than 170 million.

If the advantages of economic union are so great, the question must arise, why has not something been done before? In view of the strong trend towards economic nationalism in Europe, especially since 1914, this question suggests that there may be economic, political, and, perhaps, social forces that have operated against merger.⁴ No matter how difficult it may be to understand or account for these feelings, they do exist and cannot be wished away. The rancor, hate, and prejudices of centuries cannot be disregarded. However, since the EEC is concerned with economic matters, let us concentrate solely upon them.

Many considerations played a part in delaying the start of the common market, and in keeping its membership to the present low number. England, for example, is loath to separate itself from the close ties that bind the members of the Commonwealth, or to subordinate its connections with the nations of the sterling block to the interests of continental nations. The Scandinavian countries, as well as Spain, Portugal, Austria, and Switzerland, also have their own particular problems that have kept them out of the community.

3. International Labor Office, *Social Aspects of European Economic Co-operation* (Geneva, 1956), pp. 11-25.

4. United Nations, Economic Commission for Europe, *Growth and Stagnation in European Economy* (Geneva, 1954), gives a good comprehensive review of the economic developments of the inter-war years.

Perhaps a leading cause in the slowness of progress toward economic union has been the long period in which each nation made an effort to rely upon its own resources, and develop its own economy. The two world wars and the depression of the 1930's caused all nations to protect their respective economies from dumping, competition, and the dangers of having sources cut off in the event of military action. The distortions introduced by these efforts are truly monumental. Correcting them will be hardly less so. In addition to taking steps toward autarky during a period of great uncertainty, most nations have elaborated controls and other schemes to insure full employment. Once a goal as popular as full employment has been set, it is difficult to imagine that any changes which might risk unemployment, even for short periods, will be tolerated.⁵ Hence many nations are uncertain as to what impact a merger of economies will have upon their economy. Rather than risk the hazards of uncharted waters, they prefer to stand aside until enough progress is shown to indicate what the common market will lead to.

Moreover, the complex structure of regulations over trade and commerce including import licensing and control of exchanges, has become the customary way of ensuring a balance of payments for many nations. Some equally effective alternative to solve this problem is yet to be found. This problem may very well become a major headache to the common market. For example, if some members continue to have unfavorable balances, large budget deficits and inflation, while others are able to maintain stable currency, great imbalances could pile up. To avoid this, the members of the community will have to collaborate closely in matters dealing with fiscal and monetary policy, as well as with the agreed-upon areas of the economy, if the market is to develop. However, there are all types of difficulties in arriving at common agreements in areas as complex as these. Finally, some degree of uniformity in the actions of labor unions with regard to pressure for higher wages, and of employers with regard to profit and competitive practices, will also be required to make the treaty work.⁶ Little should we wonder, then, as to the slowness with which the agreement was arrived at and then placed into operation.

How intricate and difficult economic union can be is shown by the travails of the Benelux experiment. Belgium and Luxembourg agreed upon economic union in 1922; but complete economic integration was still to be achieved in the 1950's. The expansion of the union to include the Netherlands was agreed upon in 1943, when the governments in exile were preparing for their return to their homelands. Although the Benelux union has made some progress, the timetable to apply the various conventions and agreements has been repeatedly de-

5. United Nations, Economic Commission for Europe, *Economic Survey of Europe Since the War* (Geneva, 1953), p. 218.

6. Michael T. Florinsky, *Integrated Europe?* (New York, The Macmillan Company, 1955), Chap. 2, provides a balanced and perceptive review of the problems arising from economic integration.

layed. Even then, however, the slow rate of progress has not avoided repeated crisis.⁷

When broad policy problems are left behind, and the union is viewed in terms of specific firms and industries, additional cause for concern is evident. The care and caution with which the drafters of the treaty trod in this sector are proof enough of the uncertainties that lie ahead. How will the various industries of the member nations fare as competition is made the main determinant of the flow of products? Will the advanced major industrial complexes of the Rhine, Belgium, and northern France dominate the market? Or will there be enough demand to keep prosperous all the industrial centers dispersed throughout the territory of the union? There are no easy answers to these questions. Furthermore, how the various companies will adjust to the challenges of competition may have a lot to do with the final result.

At the moment it would seem that the industrial centers of Germany have a clear-cut advantage over the less developed potentials of Italy and France. This condition may have been based upon the ready availability of coal and iron ore. As new sources of power are developed (hydroelectric, oil, methane gas, and even atomic energy), the advantage of the Rhine may be offset. Moreover, the social overhead costs for providing the services needed by large population centers may offer another important deterrent to further concentration of industry in that area. In addition, the growing importance of petroleum as a source of industrial energy, and the fact that this product comes to Europe from Middle East sources, may bring further the diversification of the location of industry. Finally, the revival of the Mediterranean Basin area may create new markets that can best be serviced from locations in Italy or the southern part of France. It is much too early to give any final answer to this important question.

It is interesting to note, however, that Italian and French industry may be able to compete on an equal footing with German products in certain areas. The Italian Fiat Company, to cite one case, sells more cars in Germany than in any other foreign market; its total sales in Germany increased from seventh place for all cars in 1957 to fourth in 1958. Also, French-made cars are selling very well in foreign markets.⁸

Nevertheless, the smaller firms, many of which may have survived mainly because of the buffers offered by protective duties, may suffer seriously. The impact of the common market upon the less developed parts of Italy and France is something else to worry about.⁹ It may be

7. *IBID.*, pp. 32-40.

8. *Time Magazine*, November 24, 1958, p. 87.

9. International Labor Office, *op. cit.*, Chaps. 3 and 4, gives special attention to differences in labor costs, and the programs that may be required to even out wage differentials.

necessary for the respective governments to take steps for special treatment to investments in those areas in order to draw new industries and provide jobs that would raise the standard of living. The community is aware of this situation and has taken steps to provide assistance to the handicapped areas. The European Investment Bank, with an initial fund of one billion dollars, and the European Social Fund have been created in part to aid the smaller firms to modernize. Furthermore, the treaty does not limit the freedom of individual nations to undertake special programs, aid less developed areas. The only restraints that do exist are designed to assure that such policies do not promote conditions that would affect competition within the economic community.

Difficult as these adjustments to the common market may be, the remarkable economic growth enjoyed by member nations since 1951 creates conditions that simplify this process. Industrial output in the sixteen-nation Organization for European Economic Cooperation for 1951 to 1955 increased by 38 per cent, with gross national product advancing by 27 per cent. OEEC in 1957 estimated that growth for these nations for 1956 to 1960 will be 25 per cent and 17.4 per cent respectively. It is easier to make changes in a period of rapid economic growth than would be the case if growth were slowed up, or if production actually were to fall. Obviously, general business conditions in the early formative years of the common market will be a factor of considerable importance in aiding or hindering the transformation of the six national economies into a single economy.

Finally, the institutions created to carry out the provisions of the treaty will have to contribute their part. Not only will the ability of the various economies and national governments to cope with the problems arising from the merger be a matter of importance, but the agreement has set up cooperative agencies that must coordinate policies of the member governments. The European market has created an assembly of 142 delegates drawn from the six national parliaments. Representation is weighted according to the population of the member nations. Eventually it is hoped that these delegates may be selected by universal suffrage. The assembly will also serve Euratom, the European Atomic Energy Community, that began to operate in 1958 and was designed to unify jurisdiction over all civil exploitation of nuclear energy, and the Coal and Steel Community, a plan agreed upon in 1951 and operating from 1952 onward to create a single market for coal and steel among the six members of the plan.

In addition, there is a council of ministers, with one representative from each government. Decisions in the early years will be by unanimous vote, later by a weighted majority. An independent commission of nine members, nominated by common agreement and operating by simple majority vote, will be the community's general staff. It will hold considerable power in initiating actions deemed desirable to resolve issues, and also in deciding questions brought to its attention. There are several consultative committees to deal with special sectors. Finally, a court of justice is to be established to rule on interpretations

and applications of the treaty, as well as to perform a similar function for Euratom and the Coal and Steel Community.

If these bodies cannot arrive at an agreement, especially in areas where the treaty has postponed until a later stage the formulation of regulations, the potential sources of difficulty are many and varied. Furthermore, these regulatory bodies will have to learn their roles under varying conditions. How well they perform their allotted tasks will depend upon their adaptability and good judgment, and their cooperation and support. After all, it is difficult enough to predict future events, let alone anticipate the assorted paths and intricacies they will take. It may very well be that unexpected issues will arise, or else anticipated problems will appear but in areas and ways that were not expected. The ability of these administrative bodies to cope with these issues, economic, political, and social, will be telling in the final operation of the common market.

In the preceding section difficulties that may be expected to arise among the member nations were discussed. But what of the nations outside the group? Even if all present sixteen members of OEEC join the common market, what effect will this move have upon countries that are outside the potential roster of final participants?

As tariff walls among the six are reduced it is probable that trade among the members will increase. However, this does not necessarily mean that total volume of trade with other areas will suffer. It follows that if the community is able to advance its total production at a rate faster than would have been the case if each nation remained a separate economy, the combined needs for raw materials and semi-manufactured products will expand rather than fall because these nations depend upon outside sources for these items.

Insofar as the more advanced industries are concerned, past experience suggests that trade among the highly industrialized nations is often greater than among less developed countries.¹⁰ For example, the best customers of the United States are not the nations of Asia (Japan excluded), Africa, and South America, but such nations as Canada, England, Germany, Japan, France, and Italy, all of whom rank among the most highly industrialized economies in the world. Furthermore, the experience gained from the first years of operation of the Coal and Steel Community has shown sharp increases in the volume of imports to feed the steel mills of member nations, ranging from 23 per cent more coal to more than three times as much scrap.

Although the United States economy may be adversely affected by the growth of the productive ability of European nations, this nation has been doing its utmost to press for union since 1947. Prior to that year the American attitude was less constructive, and included

10. League of Nations, *Industrialization and Foreign Trade* (Geneva, 1945).

deliberate efforts to "Balkanize" the continent after World War I, and a marked degree of indifference to European interests at the wartime meetings of Franklin D. Roosevelt, Winston Churchill, and Joseph Stalin. Perhaps the dangers of communist ambitions overcame previous impatience with some of the nations on the continent. In fact, Paul Hoffman, when serving as Administrator of the Economic Cooperation Administration, delivered a speech on October 31, 1949, asking for speedy economic integration and warning that Marshall Plan aid would be halted unless positive progress were shown.

Whatever the position of the administration, the American economy may have to make considerable changes to meet the new conditions being created by the common market. At present, products exported from this country compete on an equal footing with those of other outside nations when entering the national economies of the six member nations. As the tariff barriers among the six are lowered and finally done away with, United States companies will still have to pay duties. While the over-all economic interests of America may not be unduly harmed by this change, it is likely that modifications will have to be undertaken to meet new conditions within the community. Individual companies may find it desirable to set up branches within the market area to serve its customers among member nations, or else rely to a lesser degree upon European markets for business. Firms that already have plants within the market area may have to relocate or add to their facilities to meet rising demand.

Granted all of these difficulties, why are so many persons in Europe and elsewhere urging a common market? The reasons are many and varied, but they can be reduced under three major headings.

First, Europe, which as recently as 1914 was the unchallenged leader of the world in industry and trade, in military and political power, and in cultural achievement, has fallen to a low state. Much of this loss has been caused by internal bickering and animosities. If Europe is once again to play its former role to any degree it must resolve the difficulties that caused its decline. Unless it can do this and do it soon, the nations of the continent may soon lose whatever control they still retain over their destinies.

In addition, the old concepts of imperialism and nationalism, which aroused the peoples of the continent to storm and conquer large areas of the world, have lost their vitality and meaning. If Europeans are to find some new substitute that will make possible a perpetuation of their cultural achievement, they will have to find something in which people can believe. It is not enough to fight communism on the economic or military front; it is also necessary to create a body of beliefs which are compelling and meaningful to present day needs if the peoples of the continent of Europe are to retain their individuality. Failing this, the future will look very black indeed.

Lastly, modern technology makes increasing demand on capital and highly specialized skills. Limited national markets cannot keep

up with the advances being shown by the United States and Russia. Furthermore, new potential industrial giants, China and India, are rising to compete for raw materials and markets. Once again, it is not a matter of having much choice; if European nations are to avoid stagnation and eventual loss of even the lower position they enjoy today, their rate of industrial growth must rise to the new challenges. Just as important as the ability to keep up with the economic giants, is the realization that failure to satisfy the material wants of the various peoples of Europe, especially those residing in what are now handicapped areas, may further undermine the social and political order.

Therefore, economic unity, whatever its material advantages and disadvantages, is much more than a simple question of raising the standard of living. It may offer a nucleus about which social and political improvements might crystalize. This catalytic effect may even bring about a needed regeneration of Europe. The prospects that such an achievement open up are too heady to contemplate at so early a stage, but just one tantalizing prospect deserves attention. If the common market can work successfully, not only will it mean plugging up a potential point of entry of communist subversion; its very success may mark the turning point in the struggle for men's minds that is now being waged in all parts of the world.

Great as may be the difficulties that lie in the path of the European Economic Community, the goads offered by the dangers of failure and the promises of success may help to smooth the way. They may be enough to overcome the inertia and uncertainty that are now all too evident.

REPORT ON HOUSING ACCOMMODATIONS OF ELDERLY PERSONS IN THE CITY OF MILWAUKEE

by

Edward Aronov

EDITOR'S NOTE: With this issue, the Marquette BUSINESS REVIEW is inaugurating a series of articles derived from studies made by or with the assistance of the Bureau of Business and Economic Research, Marquette University, for the purpose of giving our readers an opportunity to become familiar with some of the major research activities performed for government, business, and the university.

The "Study of Qualitative and Quantitative Characteristics of Elderly Families and Individuals Residing in the City of Milwaukee, Wisconsin," which is summarized in the following article, was prepared with the assistance of:

Mr. Richard W. E. Perrin, Executive Director, Housing Authority, City of Milwaukee, who directed the development of the objectives and implementations of the preliminary study by the Bureau of Business and Economic Research, Marquette University, and of the final study by the Housing Authority of the City of Milwaukee.

Mr. Edward Aronov, Management Supervisor, Housing Authority, City of Milwaukee, who assisted in the development of both studies and was responsible for the general supervision of the study for the Housing Authority.

Mr. George Akahoshi, Planning Analyst, Housing Authority, City of Milwaukee, who assisted in the implementation of the preliminary study by the Bureau of Business and Economic Research and was responsible for the direction and supervision of the final study by the Housing Authority.

Mr. Frank G. Wherry, Assistant Professor and Director of Business Research (1956-1958), Marquette University, who was responsible for the direction and supervision of the preliminary study of the Bureau of Business and Economic Research.

Estimates prepared by the Bureau of the Census for the period April, 1950 to July, 1957 indicate a 21 per cent increase for the population aged 65 years or over, compared to a 13 per cent increase for the population as a whole.¹ This rapid increase in the elderly population has emphasized the problems that almost always bedevil the elderly — problems with respect to retirement income, medical needs, leisure time activities, counseling, and appropriate housing.

The Common Council of the City of Milwaukee, therefore, expressed concern for the needs of Milwaukee's elderly population. Noting evidence of local population developments which paralleled

1. Bureau of the Census, *Current Population Reports: Series P-15, No. 172: January 28, 1958.*

those at the national level, the Common Council in February, 1957, authorized the Housing Authority of the City of Milwaukee to prepare a study and make recommendations regarding housing designed specifically for the elderly. It was decided that quantitative and qualitative information about Milwaukee's elderly population and the housing it inhabited would be surveyed.

To carry out the survey, contractual arrangements were made with the Bureau of Business and Economic Research of Marquette University. Quantitative and qualitative characteristics of the City's elderly population were obtained by field interviews conducted by the Bureau from January, 1958 to March, 1958. Subsequently, the staff of the Housing Authority revisited the families of the aged to get information about the kind of housing occupied by them. The complete survey, therefore, is the result of the combined efforts of the Bureau of Business and Economic Research and the staff of the Housing Authority.

To obtain findings representative of the City as a whole, the Bureau of Business and Economic Research visited 2,500 sample units. These were found to contain a total of 8,752 persons of all ages. Persons aged 65 years or over numbered 800 or 9.14 per cent of all persons included in the sample.

Since one purpose of this study was to measure the adequacy of housing available to elderly families and individuals in the City of Milwaukee, all elderly persons living alone and groups containing elderly persons who would appear to form a logical consumer unit were considered a unit of housing need.

Differences, of course, exist in the composition of households in prosperous times and periods of economic decline. Effective demand is dependent upon economic factors which tend to broaden or limit the choices of consumer units. Thus housing need must not be confused with effective demand. While there is indeed some relationship between both, need does not necessarily insure demand.

For purposes of definition the term "elderly family" when used in this report means a single individual, 65 years of age or more, or a group of two or more persons, defined above as units of need, one of whom is 65 years of age or more.

The survey results contain no findings that are startling or even unexpected. The Milwaukee survey confirms the data of similar surveys of elderly urban populations conducted elsewhere.

Various sources, local and national, had indicated that the elderly population was increasing. The survey results showed that in Milwaukee the elderly population, including that proportion in institutions, had increased from 8.14 per cent in April, 1950 to 9.22 per cent in March, 1958. The non-institutional elderly population numbered approximately 70,000 persons in March, 1958, and 23 per cent of the households in the City contained at least one member 65 years of age or older.

Most surveys show that there is a preponderance of females over males. To no one's surprise, the Milwaukee study showed that females constituted 56 per cent of all elderly persons covered in the study, and among the single-person elderly, approximately two-thirds were females.

Of the elderly families in the sample, 40 per cent consisted of one person, 45 per cent of two persons, 10 per cent of three persons, and 5 per cent of four or more persons. In addition, 99 per cent included at least one member who had resided in the City of Milwaukee for at least one year, and 98 per cent included one member who was a citizen of the United States. Less than 4 per cent of the elderly families in the survey were non-white.

As had been expected, the survey demonstrated that elderly families and individuals had extremely low incomes. The typical elderly consumer unit, as defined in this survey, had an annual income of \$1,950, and two-thirds reported incomes below \$3,000. The income of elderly single persons was even lower, the median for this group being \$1,000 per year with three-fourths having incomes below \$2,000 per year.

The largest single source of income was Social Security with almost two-thirds receiving at least part of their incomes from this program.

Elderly families were found in a variety of living arrangements. Those owning or renting their own homes or apartments comprised 85 per cent of the total; 13 per cent lived with relatives, and the remaining 2 per cent were lodgers with non-relatives or residents of rooming houses.

The Public Housing Administration utilizes certain criteria for the classification of dwellings into "standard" and "sub-standard" categories. Under these criteria all dilapidated dwellings and all units lacking private toilet, bath, and hot and cold running water are classified as sub-standard. In addition, the American Public Health Association uses certain criteria based upon heating facilities, overcrowdedness, mixed uses, and no private kitchen. The Urban Renewal Administration includes certain criteria for "deteriorating areas" when surveying a neighborhood. The staff of the Housing Authority combined all three sets of criteria when the living arrangements of the elderly in the City of Milwaukee were examined.

On this basis it was found that 42 per cent of all elderly families occupied accommodations deficient in one or more respects as noted above. Among elderly owners, less than one-third occupied such dwellings; but among renter families with incomes below \$3,000, 65 per cent lived in housing characterized by these conditions.

In 1950 the typical family in the City of Milwaukee paid 19 per cent of its income for rent. The elderly renter families in the survey paid a far higher proportion of their incomes for rent, 38 per cent as a median gross rent-income ratio.² Renter families with incomes

2. When used in this report, gross rent shall mean contract rent plus the cost of all utilities including heat.

below \$3,000 paid a median rent-income ratio of 51 per cent, and 88 per cent paid 30 per cent or more of their income for rent.

For all one- or two-person elderly families, the median gross rent was \$79. Elderly single persons with incomes below \$3,000 paid a median rent of \$55 and three-fourths paid \$40 per month or more. Even among elderly individuals with incomes below \$2,000, two-thirds paid at least \$40 gross monthly rent for their quarters and one-half of those with incomes below \$1,000 paid \$40 or more.

An estimated 9,200 elderly families of one and two persons in the City of Milwaukee had incomes below \$3,000 per year and paid rent for their shelter. For all practical purposes it may be concluded that virtually all such families were in need of improvement in their housing arrangements or paid rent out of proportion to their income. Eighty-eight per cent of this group paid 30 per cent or more of their incomes for rent and 67 per cent occupied deficient housing as defined above.

In recent years some knowledge has been gained which assists in the proper planning of housing for the elderly, and a number of factors have become commonly accepted in the planning and construction of such housing. These include such physical amenities as grab-bars for bathtubs, non-skid floors, low shelving, and wider doors with no thresholds.

The survey field schedule contained a small number of preference and attitude type questions which were designed to give local planning information. However, caution must be exercised when interpreting the results, because attitude responses are difficult to assess. The findings generally agreed with conclusions reached in other sections of the nation where similar surveys had been completed.

The group surveyed indicated relatively strong attachments to the present places of residence. The results showed that one-half of the elderly would prefer to remain in their present neighborhood if they were to move from their present dwellings.

While only 39 per cent of all one- and two-person families expressed a willingness to move into high-rise, elevator-serviced buildings, more than 60 per cent of the elderly who rent and who had their own households indicated a willingness to move into such a building.

The survey results indicate that either a mixed project for the elderly and younger families, or an entirely separate project for the elderly would be feasible in Milwaukee. Families were asked whether they would prefer to live with families of a similar age, younger families with children, or a mixed community of elderly and younger families. Among renter families with incomes below \$3,000, 43 per cent chose families of similar age; 28 per cent desired a mixed community, and only 5 per cent preferred younger persons for neighbors. Almost one-fourth of the group surveyed indicated no preference.

When questioned about their hobbies, most respondents mentioned relatively passive or sedentary activities that would require little more than community space and equipment such as chairs and tables. Hobbies such as sewing, knitting, cooking, cards, checkers, attending ball games, and watching television were cited by 44 per cent of the respondents. Only 6 per cent engaged in outdoor sports and 23 per cent listed home repairs or gardening as a hobby. A relatively large proportion, 29 per cent either had no hobby or did not answer to the question.

Fewer than one-third of the elderly one- or two-person families owned automobiles. This proportion ranged from less than 20 per cent at the lower end of the economic scale to 88 per cent of those with incomes of \$7,000 per year or more. Of the one- or two-person elderly renters with incomes below \$3,000 only one-sixth owned automobiles.

More than one-third of the elderly families had at least one member who required regular medical care, and 20 per cent had at least one member who was restricted to a special diet.

The housing arrangements of elderly renters with incomes below \$3,000 were especially poor as contrasted with home owners and higher income renters. In fact, virtually all of the estimated one- and two-person consumer units in this group appeared to be in need of improved housing, or paid rents out of proportion to their incomes. Further, their incomes would indicate that about \$50 per month would be the most that many in this segment could pay for housing without curtailing expenditures for other essential goods and services. Improved housing for this group would in all likelihood involve some form of assistance or subsidy as few good-quality dwellings are available at such prices. It would be desirable if all 9,200 families comprising this segment of the elderly population could be comfortably and safely housed. It may be expected, however, that in the normal course of events only 9 to 15 per cent, or an estimated 825 to 1,400 of these families will actively seek to change their housing arrangements in any given year.

The City's public housing program as it exists today can only accommodate from 7 to 15 per cent of the expected movers among the lower income elderly renters. Hence, additional subsidized or aided housing appears to be needed in order to induce substantial improvements in housing at least among those elderly renters of low income who will be active in the housing market in a year's time.

Recently, applications for low-rent public housing in Milwaukee have been received from the elderly at a rate of approximately 300 per year. Assuming that all such applicants were renters, it would appear that roughly from one-fifth to one-third of those who wished to move actively sought public housing as an alternative to their present living arrangements. To accommodate even one-half of this demand on a continuing basis, the City of Milwaukee would require about 1,150 public housing units for the elderly. The current backlog of applications from the elderly numbers 200 cases. At present rates

of availability, the backlog is expected to increase to about 500 by 1960, unless additional units are provided through new construction.

Under these circumstances, the 300 units approved for site selection by the Common Council, would appear to represent a modest program of public housing for the elderly in Milwaukee.³

In plans for housing for the elderly, high-rise construction would be suitable as most of the elderly renters endorsed such accommodations. The results also indicate that either separate projects for the elderly or mixed communities of the elderly, together with younger families, would be feasible in Milwaukee.

However, it must be remembered that the public housing program can serve only a portion of the elderly population in Milwaukee that requires adequate housing. There are many elderly families and individuals in the City whose relatively high income and assets would preclude them from consideration as tenants of a low income housing program. Other sections of the Housing Act contain provisions which have proved to be of assistance to these families.

The Federal Housing Administration is authorized under Section 207 of the Housing Act to insure mortgages on rental housing projects of eight or more family units. Special provisions are made for such insurance on projects undertaken by non-profit organizations for occupancy by elderly persons and families.

Section 213 of the Housing Act authorizes the insurance of mortgages on cooperative housing projects of eight or more family units. These may be either sales-type or management-type projects. Cooperative housing, which has not been explored extensively in Milwaukee, may be a fertile field for future plans.

For many years the Federal Housing Administration has insured mortgages under Section 203 of the Housing Act, and reports as of August, 1958, indicate that about 3,000 elderly families have purchased homes under this Section.

In addition to the programs of the Federal Housing Administration described above, the private housing industry has demonstrated that other means are available to supply homes for the elderly. In some sections of the country hotels have been converted to appropriate residences. New "retirement towns" have sprung up, built by private developers who have learned that the elderly can be a good market for new house sales. In many instances the project developer will trim his profits in order to perform a public service.

The different tools for housing that have been described are not merely ideals or dreams. From California to New York, from Florida to Minnesota, appropriate housing for the elderly has been and is being constructed. Church organizations, teachers' groups, labor unions, foundations, and other groups are all participating.

3. On November 25, 1958, the Common Council approved the construction of approximately 120 units designed specifically for the elderly in accordance with Section 66.40 of the Statutes of Wisconsin.

The private housing industry and non-profit organizations, with the aid of the special Federal Housing Administration insured mortgage programs for the elderly, would in all probability adequately serve the needs of the small number of the higher income elderly occupying deficient or deteriorating housing. For the one- and two-person owner families with incomes below \$3,000 who have a need for improved housing, however, no apparent solutions appear to be at hand. Their low current incomes in combination with real property equities would function to place high-fixed monthly mortgage commitments or rents out of reach for many on the one hand, while large assets would preclude the availability of federally-aided public housing for others. Of this income-tenure segment, numbering an estimated 18,800 in the City, approximately one-fifth appeared to have a need for better housing.

The important thing is to keep in mind that the problem of furnishing housing to the elderly population can be solved only by cooperative efforts of the private housing industry, non-profit organizations, and the various programs of federal, state, and local governments. It is a job for the community and it will be done when all the resources of the community are used.

WATCH WISCONSIN

A Comparative Analysis of Retail Sales Trends

by

Parker M. Holmes*

Ability and willingness to spend was generally in evidence during December when retail sales hit an all-time December high, approximately 6 per cent above the year-ago level. Following good showings during October and November, total sales for the year probably will exceed \$200 billion and equal the 1957 all-time high.

This happy ending of a recession year reflects several favorable economic factors. First of all is the fact that the worst of the recession is now behind us. Relieved of some anxiety over income prospects in the coming year, consumers are now spending more freely. Although expenditures are still primarily confined to soft goods and services, consumers are beginning to "stock up" on semi-durables (apparel, general merchandise, etc.) and are showing some interest in the new crop of "big-ticket" appliances and other hard goods.

In October, when retail sales were 2.4 per cent above the year-ago level, gains of 7 per cent were scored in the perishable categories (food and gasoline) and a good gain was in evidence in the lumber, building material, and hardware group. The latter gain perhaps may be influenced by the fact that home building activities in October rebounded to the highest levels in three years, reaching an annual rate of nearly 1.3 million new private homes.

Within a reasonable period of time, this housing boom must be translated into purchases of large household appliances and the indications are that department stores and discount houses are already witnessing just such a development. Department store sales, after lagging behind 1957 for most of the year, are now running ahead and are expected to finish the year approximately 2 per cent above the 1957 level.

Automotive sales in December will provide a good clue to consumer acceptance of the new models, free from the influence of insufficient stocks induced by earlier strike difficulties. However, it is doubtful that auto sales will exceed the December 1957 total. On the other hand, performance undoubtedly will be better than the 13 per cent decline displayed in October, which reflected the shortage of new cars. Chrysler, of course, is still having difficulties. The Rambler and Lark can be counted on to meet some of the competition of the foreign cars, which now account for over one-quarter million new car registrations annually.

*Parker M. Holmes is Associate Professor of Marketing, Marquette University.

Sales by major retail categories for the first 10 months of 1958 vs. the corresponding 1957 period were as follows:

	Per Cent Changes
Total Retail Sales	— 0.7
Food	6.0
Drug and Proprietary	4.4
Gasoline Service Stations.....	4.2
Apparel	2.5
General Merchandise	1.5
Eating and Drinking Places	0.2
Lumber, Building and Hardware	— 0.6
Furniture and Appliances	— 3.4
Automotive	—14.6

States currently reporting gains in total retail sales of 10 per cent or more above the year-ago level are: Arizona, Colorado, Delaware, Florida, Idaho, Iowa, Mississippi, Nebraska, New Mexico, North Carolina, North Dakota, South Dakota, and Wyoming.

Individual cities reporting gains of 10 per cent or more above the national average of 6 per cent are: Salem, Massachusetts; Sioux Falls, South Dakota; Sioux City, Iowa; Hutchinson, Kansas; Muskogee, Oklahoma; Lubbock and Austin, Texas; Camden and Trenton, New Jersey; Wilmington, Delaware; Greensboro, North Carolina; Richmond, Virginia; Albuquerque, New Mexico; Tucson, Arizona; Boise, Idaho; Jackson, Mississippi; Montgomery, Alabama; Bakersfield, Santa Ana, and San Bernardino, California.

**Monthly Index of Retail Sales vs. Year-Ago

	1958 vs. 1957		
	Dec.	Nov.	Oct.
National Average	106.0	101.0	102.0
MAJOR CITIES			
San Diego	*113.7	*107.7	*107.4
New York City	*113.5	*106.6	*109.3
Kansas City	*112.8	*106.5	*106.9
St. Paul	*112.1	*107.2	*108.3
Minneapolis	*108.3	*104.3	*104.8
Los Angeles	*108.0	*103.3	*103.2
MILWAUKEE	*107.7	*103.5	*105.9
Dallas	*107.4	*101.9	*102.9
San Francisco	*107.2	*102.4	*103.4
Boston	*107.0	*101.4	*103.2
Atlanta	*106.8	*101.8	*102.6
Cincinnati	105.5	100.3	101.3
Philadelphia	105.0	100.2	101.2

*Above National Average.

**Source of Data: Sales Management.

Chicago	104.6	99.6	100.6
St. Louis	103.6	97.7	98.6
Baltimore	102.8	98.1	98.5
Houston	102.6	98.0	99.7
Washington, D. C.	101.8	95.7	95.8
New Orleans	100.7	97.5	98.4
Buffalo	100.3	95.8	98.0
Pittsburgh	98.5	93.9	94.5
Cleveland	97.3	92.4	93.4
Detroit	97.0	92.4	93.1

Other Wisconsin and Illinois Cities

Madison	*112.5	*107.2	*108.5
La Crosse	*108.8	*104.4	*107.6
Green Bay-Appleton	105.9	*103.3	*104.8
Oshkosh	105.7	100.9	101.8
Superior	102.9	98.5	100.6
Kenosha	102.9	97.3	97.9
Racine	102.7	97.8	99.0
Sheboygan	100.9	96.9	97.8
Beloit-Janesville	94.1	90.0	91.5
Champaign-Urbana	*113.1	*108.7	*110.6
Bloomington	*112.6	*105.5	*107.6
Moline-Rock Island	*108.9	*103.9	*105.0
Springfield	*107.5	*102.0	*104.9
Decatur	104.8	100.1	101.0
Peoria	101.9	96.9	97.3
Rockford	100.4	95.7	96.6

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